



Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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In the Matter of )  
Petition of AT&T Communications ) CC Docket No. 00-251  
of Virginia, Inc., Pursuant )  
to Section 252(e)(5) of the Communications Act, )  
for Preemption )  
of the Jurisdiction of the Virginia )  
State Corporation Commission )  
Regarding Interconnection Disputes )  
with Verizon-Virginia, Inc. )  
)

DIRECT TESTIMONY OF  
DAVID L. TALBOTT  
ON BEHALF OF AT&T<sup>1</sup>

**CONTAINS PROPRIETARY INFORMATION**

ISSUES ADDRESSED	
Issue I.1	<b>Point of Interconnection</b> Should each Party be financially responsible for all of the costs associated with its originating traffic that terminates on the other Parties' network; regardless of the location and/or number of points of interconnection, as long as there is at least one Point of Interconnection per LATA?
Sub-Issue I.1A	<b>Mandatory End Office POIs</b> Can Verizon force AT&T to establish a Point of Interconnection at a particular end office, when AT&T traffic to that end office reaches a certain threshold traffic level?
Issue III.1	<b>Tandem Transit Service</b> Does Verizon have an obligation to provide transit service to AT&T for the exchange of local traffic with other carriers, regardless of the level of traffic exchanged between AT&T and the other carriers?
Issue III.2	Should transit services be priced at TELRIC, regardless of the level of traffic exchanged between AT&T and other carriers?
Issue I.3	Should AT&T have a reciprocal duty to provide transit services to Verizon?
Issue V.1	<b>Competitive Tandem Service</b> Should Verizon be permitted to place restrictions on UNEs so as to preclude AT&T from providing competitive tandem services?
Issue III.3	<b>Meet Point Interconnection</b> Should the selection of a fiber meet point method of interconnection (jointly engineered and operated as a SONET ring) be at AT&T's discretion or be subject to the mutual agreement of the parties?
Sub-	Should Mid-Span Fiber Meet facilities be established within 120 days from

<sup>1</sup> This Affidavit is presented on behalf of AT&T Communications of Virginia, Inc., TCG Virginia, Inc., ACC National Telecom Corp., MediaOne of Virginia and MediaOne Telecommunications of Virginia, Inc. (together, "AT&T").

Issue III.3.A.	the initial mid-span implementation meeting?
Issue V.2	<b>Interconnection Transport</b> What is the appropriate rate for Verizon to charge AT&T for transport purchased by AT&T for purposes of interconnection – the UNE transport rate or the carrier access rate?
Sub-Issue III.4.B.	Should Verizon have the unilateral ability to terminate trunk groups to AT&T if Verizon determines that the trunks groups are underutilized?
Issue I.6	<b>Virtual FX Traffic</b> Is the jurisdiction of a call determined by the NPA-NXXs of the calling and called numbers?
Issue III.5	<b>Tandem Rate</b> Where the geographic coverage of an AT&T switch is comparable to that of a Verizon tandem, should AT&T and Verizon receive comparable reciprocal compensation for terminating the other parties' traffic?
Issue V.8	<b>Competitive Tandem Service</b> Should the contract terms relating to the Parties' joint provision of terminating meet point traffic to an IXC customer be reciprocal, regardless of which Party provides the tandem switching function? Put another way, should the contract terms make clear that AT&T and Verizon are peer local exchange carriers and should not bill one another for meet point traffic?
Issue VII-1	<b>AT&amp;T Revised Contract Language</b> Should AT&T be allowed to circumvent over a year's worth of negotiations by inserting language on Network Architecture issues that was never discussed by the Parties?
Issue VII-2	<b>Demand Management Forecasts</b> Should the Parties' interconnection agreement reflect their recent agreement on Demand Management Forecasts?
Issue VII-3	<b>Definitions of POI and IP</b> How should the Parties Define "Interconnection Points" ("IP") and "Points of Interconnection" ("POI")?
Issue VII-4 & Issue VII-5	If AT&T fails to establish an Interconnection Point in accordance with the terms of the interconnection agreement, what reciprocal compensation rates and/or inter-carrier compensation rates should Verizon pay AT&T?  When AT&T offers a limited number of IPs, should AT&T be permitted to charge Verizon distance-sensitive charges if Verizon purchases transport to an AT&T IP?
Issue VII-6	<b>Limitations on AT&amp;T's POI</b> Should Verizon be forced to offer interconnection facilities and hubbing at central offices other than those intermediate hub locations identified in the NECA 4 tariff?
Issue VII-8	Should AT&T be permitted to pay the end office rate for delivery to Verizon's tandem, and thereby avoid paying its fair share of transport costs by failing to pay that tandem rate?

July 31, 2001

1 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION FOR  
2 THE RECORD.

3 A. My name is David L. Talbott; I am a District Manager in the Local Services and  
4 Access Management group in AT&T Network Services. In this position, I am  
5 responsible for the development and negotiation of interconnection agreements  
6 between AT&T and incumbent local exchange carriers, focusing on network  
7 interconnection issues. My business address is 3737 Parke Drive, Edgewater,  
8 Maryland 21037. A statement of my qualifications is annexed hereto as Exhibit  
9 DLT-1.

10 Q. PLEASE DESCRIBE THE SCOPE OF YOUR TESTIMONY.

11 A. My testimony pertains to all of the issues on the Decision Point List ("DPL")  
12 under the heading of Network Architecture and to three issues under the heading  
13 of Intercarrier Compensation. For the convenience of the Commission, I have  
14 included an index of the issues addressed in my testimony as Exhibit DLT-2 to  
15 my testimony.

16 Q. CAN YOU SUMMARIZE THE IMPORTANCE OF THE NETWORK  
17 ARCHITECTURE ISSUES TO AT&T?

18 A. The network architecture and intercarrier compensation issues before the  
19 Commission raise fundamental concerns about the interconnection of CLEC and  
20 ILEC networks (e.g., the number and location of POIs) and how, or even whether,  
21 the parties will compensate each other for the transport and termination of traffic  
22 originating on the other party's network.

1 An overview of Verizon's network architecture proposals reveals that they are  
2 designed to maximize AT&T's costs, minimize its network efficiencies and  
3 prevent AT&T from providing legitimate competitive services, while at the same  
4 time requiring it to provide Verizon with services or support that AT&T is not  
5 otherwise required to provide. In summary, Verizon's individual network  
6 architecture proposals add up to a comprehensive strategy to sabotage, from every  
7 angle possible, AT&T's attempts to enter the competitive marketplace. While the  
8 effect of some proposals are clearly devastating in their impact on AT&T's  
9 competitive entry plans when viewed in isolation, the Commission also needs to  
10 consider the cumulative effect of the individual proposals taken together.

11 It is important to recognize that neither AT&T or any other CLEC has yet  
12 achieved the volume and density of customers of even the smallest non-rural  
13 ILECs such as Southern New England Telephone or Cincinnati Bell Telephone.  
14 Obviously, AT&T and other CLECs face enormous challenges in competing with  
15 the incumbents that possess massive numbers of customers and ubiquitous  
16 networks. However, the most frequently overlooked competitive advantage that  
17 the ILECs possess, is the paradigm of how a local telephone network should look  
18 and operate. Regulators should not reasonably expect or require AT&T or any  
19 other CLEC to deploy new telephony networks that duplicate the architecture of  
20 the incumbent LEC networks. Such a mandate would be economically disastrous  
21 for CLECs and would severely hinder the development of competition in  
22 Virginia. Even Verizon, if it were to rebuild its network from a clean slate, would  
23 likely not deploy the same network architecture today. Rather, it would develop

1 an architecture that takes advantage of the costs and benefits of the latest  
2 switching and transport technology. Yet Verizon, in several of its network  
3 architecture proposals in this case, is asking the Commission to apply the  
4 traditional local telephony paradigm in determining how emerging networks  
5 should be interconnected with its network.

6 Of course, the insidious property of any paradigm is that the observer does not  
7 even realize that he or she is viewing the world through the skewed lens of the  
8 held paradigm. Thus, the Commission should be aware of and resist Verizon's  
9 efforts to apply a traditional local telephony paradigm as the basis for resolution  
10 of the network architecture issues, since this perspective would impose substantial  
11 unnecessary additional costs on AT&T and other CLECs. The Commission  
12 should avoid relying upon the traditional local telephony paradigm and instead re-  
13 assert those policies and rules that accommodate the substantially different  
14 strategies, network designs and economic constraints of AT&T and other CLECs  
15 in order to promote the development of a healthy, efficient competitive  
16 environment. Any relaxation or revision of these rules will only further entrench  
17 the incumbent's position in the marketplace.

18 Q. PLEASE EXPLAIN IN MORE DETAIL THE NETWORK ARCHITECTURE  
19 DIFFERENCES BETWEEN ILEC AND CLEC NETWORKS.

20 A. Verizon's network has been deployed over the past hundred years to provide  
21 ubiquitous service across its certificated territory. I would describe Verizon's  
22 network as a multi-layer or tiered network. This hierarchical or layered network  
23 was deployed when there were significant distance limitations on local loop

1 technology, resulting in many switches deployed in the neighborhoods.

2 Therefore, Verizon has many end office switches spread out over its service area  
3 and installed in the neighborhoods populated by its customers. These end office  
4 switches are interconnected by an overlaying network of tandem switches. When  
5 certain volume levels are achieved and it is cost effective, Verizon establishes  
6 high usage trunk groups that directly link end office switches (bypassing the  
7 tandems). Verizon's network architecture is depicted in Exhibit DLT-3 to my  
8 testimony. As I understand it, Verizon finds the use of its tandem switches to be  
9 the least costly method of interconnecting many end offices until certain traffic  
10 thresholds are achieved between two end offices, and only then is it more efficient  
11 for Verizon to directly connect the two end offices.

12 Facilities-based CLECs, such as AT&T, which enter a market with few or no  
13 customers, are faced with the considerable challenge of how and where to  
14 profitably deploy transport facilities and switching systems, considering the  
15 relatively low density of customers and traffic volume forecasted over the  
16 planning period. One area of technological advancement that has made facilities-  
17 based market entry a possibility is the substantial decrease in the cost of high-  
18 capacity fiber-optic facility systems. In fact, some economists assert that distance  
19 has become an irrelevant factor in telephony markets and that this trend will also  
20 eventually affect local telephony<sup>1</sup>. Accordingly, AT&T's switches<sup>2</sup> are deployed

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<sup>1</sup> Testimony of Lee L. Selwyn GA PSC Docket No. 13542-U.

1 to take advantage of the efficiencies of today's transport technology. This allows  
2 AT&T to reduce somewhat the negative economics associated with deploying a  
3 network for an initially small customer base.

4 Currently, AT&T has a menu of options that it can use to economically connect  
5 end users located relatively far from a switch. These options include: (1) high  
6 capacity fiber optic rings to commercial buildings and multiple dwelling units;  
7 (2) hybrid fiber coax plant being deployed by AT&T's cable TV properties;  
8 (3) fixed wireless technology such as 38 GHz systems, (4) UNE loop resale  
9 through AT&T collocation in Verizon end offices, and (5) dedicated high-  
10 capacity facilities (in some cases using special access services purchased from  
11 Verizon but more appropriately through combinations of UNEs). Due to the very  
12 high initial cost of switching platforms as compared to the lower incremental cost  
13 of high-capacity facility systems, AT&T has chosen to deploy fewer switches and  
14 more transport on the end-user side of the switch. Even where AT&T has  
15 determined the need for multiple switches within a LATA, they are often  
16 collocated within the same building to reduce real estate costs and to rely upon  
17 centralized technical staff. AT&T's network architecture is depicted in Exhibit  
18 DLT-4 to my testimony.

19 Consistent with AT&T's architecture, there are certain LATAs in which AT&T  
20 has not deployed a switch physically within the LATA. AT&T has agreed that in

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<sup>2</sup> Although AT&T switches normally provide both an end office and tandem function and are really multi-function switches, I will refer to them in this testimony simply as "switches."



1       such cases it will establish at least one physical Point of Interconnection (POI)<sup>3</sup>  
2       within the LATA, and AT&T will provide all of the facilities (for both originating  
3       and terminating traffic) between its switch and such POI. Where AT&T has not  
4       deployed a switch within a LATA, the POI will be treated as if it were an AT&T  
5       switch (i.e., AT&T has virtually extended its switching functionality into the  
6       LATA to the POI). The AT&T architecture, therefore, provides a switch (or  
7       switching presence) in every Verizon LATA to which AT&T offers local  
8       services.

9       Although AT&T's and Verizon's networks are similar in the sense that the two  
10      networks cover comparable geographic areas, a key distinction between the two  
11      networks is that while Verizon deploys tandems to interconnect multiple switches  
12      spread throughout the geographic area and then grows into dedicated high usage  
13      trunk groups between such switches, AT&T deploys a single switch combined  
14      with long transport on the end-user side of the switch, because that combination is  
15      less costly than adding a new switch in each part of a market.

16     As I will explain in more detail below, Verizon's point of interconnection  
17     proposal requires AT&T to adapt its network design to Verizon's. This proposal  
18     would result in AT&T losing the benefits of its efficient network architecture and  
19     incurring higher network costs. Also, Verizon's proposal would shift to AT&T  
20     the transport costs that Verizon is required to lawfully bear under the

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<sup>3</sup>       As will be discussed in more detail later in my testimony, POI means the point at which  
the two networks are interconnected for the mutual exchange of traffic.

1       Telecommunications Act of 1996<sup>4</sup>. AT&T's proposal, on the other hand, is  
2       neutral to network design in that it requires each party - regardless of network  
3       design - to be responsible for all of the costs of its own originating traffic.

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<sup>4</sup>       Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (the "Act").

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2 Issue I.1 ***Point of Interconnection*** Should each Party be financially responsible for all  
3 of the costs associated with its originating traffic that terminates on the other Parties'  
4 network; regardless of the location and/or number of points of interconnection, as long as  
5 there is at least one Point of Interconnection per LATA?

6 Q. PLEASE DESCRIBE ISSUE I.1.

7 A. This first issue, which has developed mainly because of the differing network  
8 architectures referenced above, is described in the DPL as follows: "Should each  
9 Party be financially responsible for all of the costs associated with its originating  
10 traffic that terminates on the other Parties' network; regardless of the location  
11 and/or number of points of interconnection, as long as there is at least one Point of  
12 Interconnection per LATA?" As I will explain in below in more detail, AT&T's  
13 answer to this question, which is consistent with applicable law, is yes.

14 Q. ISN'T THIS ISSUE BEING EXAMINED BY THE FCC IN ITS RECENT  
15 NPRM ON INTERCARRIER COMPENSATION?

16 A. Yes. This issue, which involves a dispute about who will bear what portion of  
17 the costs of transporting local traffic between interconnected ILEC and CLEC  
18 networks, has significant financial consequences for CLECs across the country.  
19 AT&T has been required to arbitrate this matter for each and every ICA it has  
20 re-negotiated. The Commission has recently recognized the significance and  
21 controversy surrounding this issue in its NRPM Developing a Unified Intercarrier  
22 Compensation Regime.<sup>5</sup> This NPRM is examining all intercarrier compensation  
23 issues; including those related to obligations to transport originating traffic to the

1 POI, as well as reciprocal compensation obligations that relate to the obligations  
2 to transport and terminate traffic beyond the POI.

3 AT&T agrees that the broad impact of this issue justifies, if not requires, that a  
4 decision on these interconnection matters be based on input from a broad set of  
5 industry interests. Accordingly, it is AT&T's position that any decision in this  
6 arbitration should be based on current law only. This arbitration should not be  
7 used to make new policy decisions that will have a significant impact on the local  
8 telephony competitive landscape, and that could be reversed upon the completion  
9 of a more complete and comprehensive review in the InterCarrier Compensation  
10 NPRM. It is for this reason that I will not address possible revisions to the current  
11 rules and policies relating to network architecture issues, but only address how  
12 our proposal is consistent with the Act and current FCC rules and policies relating  
13 to interconnection.

14 Q. CAN YOU EXPLAIN HOW THIS ISSUE RELATES TO THE ISSUE OF  
15 ESTABLISHING A POI?

16 A. Yes. In order to adequately address this issue, which involves a dispute about  
17 who should bear what portion of the costs of transporting local traffic between the  
18 AT&T and Verizon networks, it is necessary to clarify certain definitions relating  
19 to POI, interconnection and reciprocal compensation. If these definitions are not  
20 appropriately defined, then the rights and obligations associated with transporting  
21 traffic between the two networks cannot be understood.

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<sup>5</sup> In the Matter of Developing a Unified Inter-carrier Compensation Regime , *CC Docket*

1 The terms interconnection and POI are integrally related to the issue of transport  
2 obligations. Interconnection is the physical linking of two networks for the  
3 mutual exchange of traffic.<sup>6</sup> The Point of Interconnection, or POI, is the *location*  
4 where the parties mutually exchange their traffic.

5 The originating party can bring its traffic to a POI for interconnection in a variety  
6 of ways. It can provide the facilities itself, lease interconnection facilities from  
7 third parties, or lease interconnection facilities from the other party. In any event,  
8 the leased facilities are part of the originating party's network and the POI is still  
9 the point at which the two networks are interconnected for the mutual exchange of  
10 traffic.

11 Q. PLEASE EXPLAIN THE SIGNIFICANCE OF THE POI.

12 A. Each carrier is responsible for delivering its originating traffic to the POI.  
13 Between the originating customer and the POI, the costs of delivery are identified  
14 as the origination costs, and the facilities that bring the traffic to that point are the  
15 interconnection facilities.<sup>7</sup> From the POI to the terminating customer, the other  
16 carrier must assume operational responsibility to take that traffic to the designated  
17 end user and the originating carrier must pay the terminating carrier for the costs

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No. 01-92, *Notice of Proposed Rulemaking*, (Rel. Apr. 27, 2001)) at ¶113 ("InterCarrier Compensation NPRM").

<sup>6</sup> In the Matter of Implementation of the Local Competition Provision in the Telecommunications Act of 1996, *First Report and Order*, 11 FCC Rcd. 15499, 172, 176 (1996) ("Local Competition Order").

<sup>7</sup> Interconnection facilities are the physical transmission channels that transport traffic between the AT&T and Verizon switches that are used for local and intraLATA toll traffic.

1 of that carriage. These costs associated with the terminating side of the POI, are  
2 generally known as the termination costs. If the call is local, the originating  
3 carrier compensates the terminating carrier for that delivery pursuant to reciprocal  
4 compensation obligations which are set forth in the Act in Section 251(b)(5).<sup>8</sup> If  
5 the call is not a local call, then access charges rather than reciprocal compensation  
6 charges apply. The issue I am discussing involves the carrier's obligations with  
7 respect to local calls.

8 Thus, by selecting a particular POI location, a carrier affects both the amount of  
9 reciprocal compensation it pays the other party, and its own network costs.

10 Q. HOW IS THE POI LOCATION SELECTED?

11 A. The Act and FCC orders provide that new entrants may interconnect at any  
12 technically feasible point. Specifically, Rule 51.305(a)(2) obligates Verizon to  
13 allow interconnection by a CLEC at any technically feasible point. In its *Local*  
14 *Competition Order*, the FCC explained:

15 The interconnection obligation of section 251(c)(2),  
16 discussed in this section, allows competing carriers to  
17 choose the most efficient points at which to exchange  
18 traffic with incumbent LECs, thereby lowering the

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<sup>8</sup> Reciprocal compensation is broken down into two parts – the transport portion which is transmission and any necessary tandem switching from the POI to the terminating carrier's end office switch that directly serves the called party; and the termination portion, which involves the switching of the traffic at the terminating carrier's end office switch or equivalent facility and delivery of that traffic to the called parties premises. See 47 C.F.R. 51.701(c)(d). AT&T does not disagree with the principle behind Verizon's position on Issue VII-8, and AT&T's language is consistent with that principle.

1 competing carriers' costs of, among other things, transport  
2 and termination of traffic.<sup>9</sup>

3 The FCC identified the Act as the source of these differing obligations:

4 Section 251(c)(2) does not impose on non-incumbent LECs  
5 the duty to provide interconnection. The obligations of  
6 LECs that are not incumbent LECs are generally governed  
7 by sections 251(a) and (b), not section 251(c). Also, the  
8 statute itself imposes different obligations on incumbent  
9 LECs and other LECs (i.e., section 251(b) imposes  
10 obligations on all LECs while section 251(c) obligations  
11 are imposed only on incumbent LECs).<sup>10</sup>

12 Q. DOES THE ACT ENTITLE THE CLEC TO SELECT A SINGLE POI?

13 A. Yes. Section 251(c)(2) gives the CLEC the right to select where to  
14 interconnect, a right which enables it to establish, if it wishes, as few as one POI  
15 per LATA. This rule and policy that allows a single switch presence per LATA  
16 enables new entrants to grow their business economically without having to  
17 duplicate the ILEC's existing network.

18 Q. CAN AN ILEC ALSO SELECT ITS POI?

19 A. No, that is a right reserved for the CLECs, not the ILECs. There is no concurrent  
20 right for the ILEC to select an interconnection point or POI. If Congress had  
21 wanted ILECs to have the ability to designate interconnection points and to have  
22 CLECs bear the same duty in establishing interconnection points that ILECs have,  
23 it would have specifically granted ILEC's that right as it did for non-incumbent  
24 carriers in § 251(c)(2). That right, however, is not specified for ILECs and is

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<sup>9</sup> *Local Competition Order* at ¶ 172 (emphasis added).

1 clearly not included in the ILEC's interconnection obligations set forth in  
2 § 251(c)(2). Verizon may not assume some authority that is not provided for in  
3 the Act.

4 Q. HAS THE FCC PREVIOUSLY ADDRESSED THIS ISSUE?

5 A. Yes. The FCC's statements on this issue are clear. The FCC has consistently  
6 applied this statute to prevent ILECs from increasing CLEC's costs by requiring  
7 multiple points of interconnection. In its order approving SWBT's application for  
8 interLATA authority in Texas, the FCC made clear that this provision gives  
9 competing local providers the option to interconnect at as few as one technically  
10 feasible point within each LATA.<sup>11</sup> As the FCC explained:

11 New entrants may select the most efficient points at which  
12 to exchange traffic with incumbent LECs, thereby lowering  
13 the competing carriers' cost of, among other things,  
14 transport and termination.

15 The FCC was very specific:

16

17 Section 251, and our implementing rules, require an  
18 incumbent LEC to allow a competitive LEC to interconnect  
19 at any technically feasible point. This means that a  
20 competitive LEC has the option to interconnect at only one  
21 technically feasible point in each LATA.

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<sup>10</sup> *Id.* at ¶ 220.

<sup>11</sup> Memorandum Report and Order, *Application by SBC Communications Inc., Southwestern Bell Telephone Company, And Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance Pursuant to Section 271 of the Telecommunications Act of 1996 To Provide In-Region, InterLATA Services In Texas*, CC No. 00-65, ¶ 78 (rel. June 30, 2000) (hereinafter "*Texas 271 Order*").



1 (citing *Local Competition Order* ¶¶ 172, 209).<sup>12</sup>

2 The FCC has found the right of a competing carrier to choose the point of  
3 interconnection, and conversely the unlawfulness of any attempts by incumbents  
4 to dictate points of interconnection, sufficiently clear and compelling to intervene  
5 in court reviews of interconnection disputes. For example, in an interconnection  
6 dispute in Oregon, the FCC intervened as *amicus curiae* and urged the court to  
7 reject US West's argument that the Act requires a competing carrier to  
8 "interconnect in the same local exchange in which it intends to provide local  
9 service."<sup>13</sup> The FCC stated:

10 Nothing in the 1996 Act or binding FCC regulations  
11 requires a new entrant to interconnect at multiple locations  
12 within a single LATA. Indeed, such a requirement could  
13 be so costly to new entrants that it would thwart the Act's  
14 fundamental goal of opening local markets to competition.

15 *Id.* at 20. The FCC based its argument on both statutory and policy grounds.

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<sup>12</sup> The FCC made a similar pronouncement in a January 2001 Order granting in region interLATA authority to SWBT for Kansas and Oklahoma. *Memorandum and Order*, FCC 01-29. Joint Application by SBC Communications Inc., Southwestern Bell Telephone Company and Southwestern Bell Communications Services, Inc. d/b/a/ Southwestern Bell Long Distance for Provision of In-region, interLATA service in Kansas and Oklahoma, CC Docket No. 00-217 (January 22, 2001) ("Kansas and Oklahoma Order").

<sup>13</sup> Memorandum of the Federal Communications Commission as Amicus Curiae, at 20-21, *US West Communications Inc., v. AT&T Communications of the Pacific Northwest, Inc., et al.* (No. CV 97-1575-JE) (D. Or. 1998).

1 Q. HAVE THERE ALSO BEEN STATE COMMISSION DECISIONS AND  
2 COURT DECISIONS ON THIS ISSUE?

3 A. Yes. Many federal district courts also have rejected as inconsistent with Section  
4 251(c)(2), incumbents' efforts to require competing carriers to establish points of  
5 interconnection in each local calling area.<sup>14</sup> A district court in Colorado recently  
6 reversed a state commission's order that a CLEC must establish an  
7 interconnection point in every local calling area.<sup>15</sup> The Colorado court held that  
8 under the Act and the FCC regulations, "it is the CLEC's choice, subject to  
9 technical feasibility, to determine the most efficient number of interconnection  
10 points, and the location of those points."<sup>16</sup>

11 Similarly, in Washington, the district court affirmed the state commission's  
12 determination that AT&T may establish a single interconnection point within each  
13 LATA and rejected the ILEC's contention that a CLEC must have an  
14 interconnection point in every local calling area in which it offers service.<sup>17</sup> The  
15 Washington court based its decision on purely statutory grounds, finding  
16 appropriate the commission's refusal to "consider the cost of a single  
17 interconnection point per LATA because '[a] determination of technical

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<sup>14</sup> See, e.g., *US West Communications, Inc., v. Minnesota Public Utilities Commission, et al.*, No. 97-913 ADMAJB, slip op. at 33-34 (D. Minn. 1999) (rejecting US West's argument that section 251(c)(2) requires at least one point of interconnection in each local calling exchange served by US West).

<sup>15</sup> *U.S. West Communications, Inc. v. Hix, et al.*, No. C97-D-152, (D. Colo., June 23, 2000).  
<sup>16</sup> *Id.* at 3.

<sup>17</sup> *US West Communications v. AT&T Communications of the Pacific Northwest, Inc., et al.*, No. C97-1320R, 1998 U.S. Dist. LEXIS 22361 at \*26 (W.D. Wa. July 21, 1998).

1 feasibility does not include consideration of economic, accounting, [or] billing . . .  
2 concerns.”<sup>18</sup>

3 Moreover, numerous state commissions that have considered this issue in an  
4 AT&T arbitration have rejected the ILEC’s position and have ruled in AT&T’s  
5 favor on this issue. For example, the Indiana commission recently adopted  
6 AT&T’s network architecture proposal, permitting interconnection at AT&T’s  
7 switch for Ameritech’s traffic, and either the Ameritech tandem or end office for  
8 AT&T’s traffic.<sup>19</sup>

9 The Indiana commission based its decision upon statutory, policy and equity  
10 grounds. First, the commission relied on the Act, which imposes an obligation  
11 upon the ILEC to allow AT&T to connect at any technically feasible point on its  
12 network, but includes no reciprocal obligation for AT&T. Next, the commission  
13 acknowledged that if Ameritech’s proposal (which is nearly identical to Verizon’s  
14 proposal) were adopted, “AT&T would be required to build its network to mirror  
15 Ameritech Indiana’s – in effect – replacing Ameritech Indiana’s network with a  
16 redundant AT&T network.” The commission “reject[ed] the notion that  
17 Ameritech Indiana can compel a carrier to engage in this type of wasteful effort.”

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<sup>18</sup> *Id.* at 27. *Accord U S West Communications, Inc. v. MFS Intelenet, Inc.*, No. C97-222WD, 1998 WL 350588, at 3 (W.D. Wa. 1998), *aff’d U. S. West Communications v. MFS Intelenet, Inc.*, 193 F.3d 1112, 1124 (9<sup>th</sup> Cir. 1999) (“The agency correctly applied the Act when it limited its review to the technical feasibility of the LATA connection approved in the agreement.”).

<sup>19</sup> Decision. *Petition for Arbitration of Interconnection Rates, Terms and Conditions and Related Arrangements with Indiana Bell Telephone Company, Inc., d/b/a/ Ameritech Indiana Pursuant to Section 252(b) of the Telecommunications Act of 1996*, Cause No. 40571-INT-03 at 19.

1 Finally, the efficiency inherent in AT&T's proposal and the control it gives each  
2 party over its own network also was a factor in the commission's decision to  
3 adopt AT&T's interconnection proposal.<sup>20</sup>

4 In California, the state commission similarly considered both statutory and policy  
5 grounds when it decided to adopt AT&T's proposal.<sup>21</sup> The commission  
6 approved the arbitrator's findings that AT&T could save on its interconnection  
7 costs if it was not required to interconnect at each Pacific Bell end office.  
8 Moreover, the commission found that "AT&T is in the best position to analyze its  
9 traffic volumes and decide, in specific circumstances, whether it is more  
10 economical to interconnect at the tandem or end office." At AT&T's request, the  
11 commission set default points of interconnection at AT&T's switch and Pacific  
12 Bell's tandem switch.<sup>22</sup>

13 The Kansas Corporation Commission also rejected SWBT's interconnection point  
14 arguments and ordered that TCG should be permitted to establish an  
15 interconnection point at SWBT's local and access tandems while SWBT should  
16 establish its interconnection point at TCG's switch.<sup>23</sup> The Kansas commission

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<sup>20</sup> *Id.*, at 20-21.

<sup>21</sup> Opinion, *Application of AT&T Communications of California, Inc. (U 5002 C), et al., for Arbitration of an Interconnection Agreement with Pacific Bell Telephone Company Pursuant to Section 252(b) of the Telecommunications Act of 1996*, No. 00-01-022, p. 13 (CA PUC Aug. 3, 2000).

<sup>22</sup> *Id.* at 13.

<sup>23</sup> See Order Addressing and Affirming Arbitrator's Decision, *In the Matter of the Petition of TCG Kansas City, Inc. for Compulsory Arbitration of Unresolved Issues with See Decision of Arbitration Panel, AT&T Comm'ns of Michigan Inc. and TCG Detroit's Petition for Arbitration*, Case No. U-12465 (Oct. 18, 2000). *Southwestern Bell Telephone*

1 affirmed the decision of the arbitrator, who relied upon the Act in determining  
2 that “[t]he criterion for interconnection is whether interconnection is technically  
3 feasible at the requested point in the network.” Arbitrator’s Order No. 5:  
4 Decision, p. 3. The arbitrator also cited the Texas 271 Order and, upon finding  
5 that SWBT did not assert that the CLEC’s proposal was not technically feasible,  
6 adopted the TCG proposal.<sup>24</sup>

7 In sum, the FCC, numerous district courts, and state commissions have  
8 consistently interpreted the Act to allow CLECs to interconnect at a single  
9 technically feasible interconnection point chosen by the CLEC. These agencies  
10 and tribunals find support for their decisions in both the language of the Act and  
11 the pro-competitive policies underlying the Act. The right of a CLEC to choose  
12 its interconnection points furthers the pro-competitive objective of the Act by  
13 allowing CLECs to choose among the most economically efficient means of  
14 interconnection, and, in particular, allowing CLECs to reduce their cost of  
15 transport and termination.

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*Company Pursuant to Section 252 of the Telecommunications Act of 1996*, p. 9 (Aug. 7, 2000).

<sup>24</sup> *Id.* at 3-4. The Michigan Public Service Commission similarly rejected the ILEC’s proposed interconnection points. (The Michigan Public Service Commission affirmed this portion of the Arbitration Panel’s Decision by Order dated November 20, 2000). The arbitration panel found “AT&T has offered the better resolution” to the interconnection issue. Panel Decision at 4,19.

1 Q. YOU STATED THAT THE COSTS OF INTERCONNECTION FACILITIES  
2 ARE TO BE BORNE BY THE ORIGINATING CARRIER. WHAT SUPPORT  
3 DO YOU HAVE FOR THAT STATEMENT?

4 A. FCC regulations and decisions support this statement. For example, 47 C.F.R. §  
5 51.703(b) provides:

6 A LEC may not assess charges on any other  
7 telecommunications carrier for local telecommunications  
8 traffic that originates on the LEC's network.

9 Further, 47 C.F.R. § 51.709(b) reads:

10 The rate of a carrier providing transmission facilities  
11 dedicated to the transmission of traffic between two  
12 carriers' networks shall recover only the costs of the  
13 proportion of that trunk capacity used by an interconnecting  
14 carrier to send traffic that will terminate on the providing  
15 carrier's network.

16 Moreover, in its *Local Competition Order*, the FCC addressed this fundamental  
17 rule that each party bears responsibility for the costs of transporting its own  
18 traffic. Specifically, the FCC explained:

19 The amount an interconnecting carrier pays for dedicated  
20 transport is to be proportional to its relative use of the  
21 dedicated facility. For example, if the providing carrier  
22 provides one-way trunks that the inter-connecting carrier  
23 uses exclusively for sending terminating traffic to the  
24 providing carrier, then the inter-connecting carrier is to pay  
25 the providing carrier a rate that recovers the full forward-  
26 looking economic cost of those trunks. The inter-  
27 connecting carrier, however, should not be required to pay  
28 the providing carrier for one-way trunks in the opposite

1           direction, which the providing carrier owns and uses to  
2           send its own traffic to the inter-connecting carrier.<sup>25</sup>

3           This basic principle relating to the originating carrier's obligations to bring its  
4           originating traffic to the POI has also been affirmed in numerous FCC Orders.<sup>26</sup>  
5           In fact, most recently in the *InterCarrier Compensation NPRM*, the FCC  
6           confirmed that this principle is set forth in its current rules. It stated: "Under our  
7           current rules, the originating telecommunications carrier bears the costs of  
8           transporting traffic to its point interconnection with the terminating carrier"<sup>27</sup>

9       Q.   WHAT HAVE THE STATES SAID ABOUT THE TRANSPORT  
10       OBLIGATIONS OF THE ORIGINATING CARRIER?

11      A.   In addition to the state decisions cited above relating to POI, which also found  
12       that the originating carrier was required to transport its traffic to the POI, there is  
13       a recent AT&T arbitration in Florida, in which the Florida Commission found that  
14       each party should be financially responsible for delivering its traffic to a POI –  
15       even if it is a single POI within a LATA<sup>28</sup>

16       Also, in a Georgia generic proceeding that addressed the issue, a recent staff  
17       recommendation also found that for calls that originated and terminated within the  
18       same local calling area, Bell South was required to bear the costs to transport its  
19       calls to the POI. Specifically, the staff found that:

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<sup>25</sup>       *Local Competition Order* at ¶ 1062 (emphasis added).

<sup>26</sup>       See the discussion of relevant FCC decisions in AT&T's Petition at 15-18.

<sup>27</sup>       *InterCarrier Compensation NPRM* at ¶70.

1           “Since the originating carrier bears the cost of transporting  
2           calls to the network of its co-carrier, Bell South should bear  
3           the responsibility for calls originated on its network that  
4           have to be hauled to a CLEC’s POI within the LATA. The  
5           FCC has not made an exception from this general  
6           obligation for those instances in which a CLEC’s POI that  
7           is within the LATA but not the same local calling area as  
8           the originating point of the traffic. This conclusion is  
9           consistent with the CLEC’s responsibility to bear the costs  
10          of all the traffic originated on their networks.”<sup>29</sup>

11          This staff recommendation was adopted by the Georgia Commission on July 23,  
12          2001.<sup>30</sup>

13          Finally, the state of Massachusetts directly addressed this issue in a  
14          Verizon/MediaOne (now AT&T Broadband) arbitration, as well as in a Verizon  
15          interconnection tariff investigation. In both of these cases Verizon made  
16          proposals, like Verizon’s proposal in this case, which would have shifted a  
17          significant portion of its interconnection transport obligations to AT&T  
18          Broadband, and in both of those cases the Massachusetts Commission rejected  
19          Verizon’s proposals. The Massachusetts Commission found that each carrier has  
20          the obligation to transport its own customer’s calls to the POI (and then pay

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<sup>28</sup>          *Petition by AT&T Communications of the Southern States, Inc. d/b/a/ AT&T for  
Arbitration of Certain terms and conditions proposed by Bell South Telecommunications,  
Inc. pursuant to 47 U.S.C. Sec. 252, Dkt. No. 000731-TP at 34-46 (June 28, 2001).*

<sup>29</sup>          Georgia Docket No. 13542-U at 1 (July 10, 2001).

<sup>30</sup>          The Commission ruled on the issue on July 23, 2001, but the written order has not yet  
been released.



1 reciprocal compensation to compensate the terminating carrier for the costs of  
2 transport and termination).<sup>31</sup>

3 In the Interconnection Tariff case the Massachusetts Commission stated:

4 "Carriers are responsible to provide transport or pay for  
5 transport of their originating calls, including reciprocal  
6 compensation, between their own originating and the other  
7 carrier's terminating end-users customers. ....Because Bell  
8 Atlantic's GRIP proposal would require CLECs to establish  
9 additional interconnection points at Bell Atlantic tandem  
10 and end offices and does not allocate transport costs in a  
11 competitively neutral manner, we reject it. We direct Bell  
12 Atlantic to revise its tariff to eliminate the GRIP proposal  
13 and to include a provision that reflects that each carrier has  
14 an obligation to transport its own customers' calls to the  
15 destination end-user on another carrier's network or bear  
16 the cost of that transport." at 133.

17 Q. ARE THE ORIGINATING CARRIER'S FINANCIAL OBLIGATIONS  
18 RELATED TO THE "CALLING PARTY'S NETWORK PAYS" RULE?

19 A. Yes. Prior to the passage of the Act and the advent of competition, the originating  
20 carrier was responsible in most instances for the costs of originating, transporting  
21 and terminating each local call, simply because calls never left the originating  
22 carrier's network. Consistent with the originating carrier's overall financial  
23 responsibility, the originating carrier collected and retained the applicable revenue  
24 from the calling party. This is known as the Calling Party's Network Pays  
25 ("CPNP") rule.

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<sup>31</sup> *Bell Atlantic Interconnection Tariff*, D.T.E. 98-57 at 132-133 (March 24, 2000);  
*MediaOne/Bell Atlantic Arbitration*, D.T.E. 99/42/43, 99-52 at 12-13 (March 24, 2000).

1       The fundamental principle underlying CPNP is the fact that the calling party's  
2       carrier (network) receives the revenue from the calling party and is responsible for  
3       the costs incurred in carrying the call. Today, intercarrier compensation in  
4       Virginia is under the CPNP regime. Verizon has not made any claim to the  
5       contrary.

6   Q.   IS VERIZON'S PROPOSAL CONSISTENT WITH THESE PRINCIPLES YOU  
7       HAVE JUST DESCRIBED?

8   A.   No. As I will describe in more detail below, Verizon's proposal completely  
9       ignores these basic tenants of interconnection that have been affirmed by both  
10      state commissions and the FCC, as described above. Verizon's proposal (1)  
11      would enable it, rather than AT&T, to select the POIs, and (2) would transfer a  
12      substantial amount of its origination and termination costs to AT&T.

13  Q.   HOW DOES VERIZON DESCRIBE THESE INTERCONNECTION ISSUES?

14  A.   In its Exhibit A to Verizon's Answer to the Petitions for Arbitration ("Verizon  
15      Response")<sup>32</sup>, Verizon has inaccurately portrayed these issues as a question of  
16      whether its subscribers should pay for the design of the AT&T network in  
17      Virginia. Verizon portrays this issue as one "caused" by AT&T and its local  
18      network design. That characterization is a biased view of the issue and entirely  
19      misses the point. This issue arises because Verizon's network and the AT&T  
20      network are configured differently, yet must still interconnect to serve a similar  
21      geographic base of customers. Those differences, therefore, are not "caused" by  
22      AT&T. Indeed, in this vein it is just as easy, and correct, to say that those

1 differences are “caused” by Verizon, because Verizon chose to design *its* local  
2 network different than AT&T’s network. However, it is entirely inappropriate to  
3 look at this issue from the perspective of either Verizon’s or AT&T’s network.  
4 Neither network should be viewed as the “correct”, “baseline”, or “primary”  
5 network. Nor is it appropriate to conclude that any one network imposes  
6 interconnection costs on the other network. Rather, it is the interconnection of  
7 *both* networks to one another that creates additional costs that neither would bear  
8 if the networks were not required to be interconnected with one another.

9 Therefore, the focus of this issue should be on the harm to competition and  
10 consumers in Virginia caused by the Verizon proposal and on the illegality of the  
11 Verizon proposal under the Act and FCC regulations.

12 Q. PLEASE DESCRIBE THE SPECIFICS OF THE VERIZON PROPOSAL.

13 A. Verizon proposes that in most instances AT&T must deliver its traffic all the way  
14 to the Verizon end office - or to what Verizon describes as a “geographically  
15 relevant interconnection point” (what Verizon terms a “GRIP”). If AT&T doesn’t  
16 establish a POI at every end office, then Verizon proposes that AT&T pay  
17 Verizon for the additional transport costs that Verizon is incurring to deliver its  
18 originating traffic to AT&T’s POIs. For traffic originating with Verizon, Verizon  
19 proposes that it deliver its traffic only as far as the Verizon tandems, or in some  
20 cases only as far as the Verizon originating switch. Moreover, Verizon does not  
21 propose to pay AT&T anything for the costs of taking Verizon’s originating

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<sup>32</sup> Verizon Response at 6.

1 traffic from the point where it delivers its traffic to AT&T's switches for  
2 termination.

3 The underlying assumption in this proposal is based on Verizon's assertion that it  
4 should not be required to transport its local calls beyond its local calling area.<sup>33</sup>  
5 Thus, Verizon is identifying its local calling areas as the demarcation point that  
6 should define the limits of its interconnection transport obligations. However,  
7 Verizon's local calling areas are not and should not be the basis for defining  
8 network interconnection and where a carrier's financial responsibility for carrying  
9 traffic ends.

10 Q. WHY IS VERIZON'S PROPOSAL WRONG?

11 A. There is no logical, economic or technical reason to use Verizon's legacy local  
12 calling areas to define the basis of network interconnection and the division of  
13 financial responsibility between carriers. Verizon's local calling areas are an  
14 artifact of a monopoly era and Verizon's network structure as it evolved over  
15 time. Over the past century, local calling areas have been developed and  
16 modified around the then-current technology and the corresponding network  
17 capabilities that Verizon was able to deploy. As modern electronic switches  
18 replaced cord switchboards and mechanical switching and as the cost of transport  
19 decreased, local calling areas have generally evolved to encompass larger  
20 geographical areas. Today's broad geographic coverage of AT&T's local  
21 switches simply does not correspond to Verizon's legacy network architecture.

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<sup>33</sup> Verizon Response at 8-13.